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SUBJECT: ZAMBIA AUGUST 2007 ECONOMIC ROUNDUP

#### 1. SUMMARY

-- BOZ Bemoans Oil Prices, Warns Of Inflation Rate Rise  
-- Stakeholders Query Government Over CEE Act  
-- World Bank, IMF Caution On Copper Prices, Ag Subsidies  
-- BOZ To Withdraw Money From Commercial Banks  
-- Zambian Airways Records Growth  
-- Mining Companies Find High-Grade Uranium Deposits  
-- Barclays Confident In Economy, Makes Plans To Expand  
-- World Bank Supports Credit Facility  
-- WEF Rates Zambia's IT and Tourism Sectors  
-- New Structures To Facilitate Zambia-DRC Trade  
-- Zimbabwe Seeks Trade Opportunities In Zambia  
-- Pande Invites Chinese Investment

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BOZ Bemoans Oil Prices, Warns Of Inflation Rate Rise  
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12. On August 6, the Bank of Zambia (BOZ) warned that continued increases in international crude oil prices may jeopardize Zambian efforts to maintain single-digit inflation. However, BOZ Governor Caleb Fundanga said that he expects foreign exchange earnings from agricultural and copper exports to cushion inflationary pressure. He pointed out that in 2007 the central bank has accumulated additional reserves equivalent to USD 182 million. The year-on-year inflation rate in August 2007 was 10.7 percent.

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Stakeholders Query Government Over CEE Act  
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13. During a seminar on the Citizens Economic Empowerment (CEE) Act, Zambia Consumer Association Executive Secretary Muyunda Ililonga questioned the GRZ's ability to implement the Act when it appeared to have insufficient resources to pay pensions to retirees. "Empowerment should be a continuous process. We do not need an Act to empower Zambians," he said. Ililonga also questioned what measures the CEE Commission had put in place to harmonize the Act with the Fifth National Development Plan. The CEE Act, which was passed into law in 2006, aims to provide commercial opportunities to disadvantaged citizens, but the way in which the GRZ will carry out this empowerment is not clearly defined, and much decision-making authority is vested with the Presidency. At the seminar, University of Zambia Professor Love Mutesa advised the GRZ to invest in human capital and to improve access to land. Land, he argued, would enable Zambians to access additional financing by using their personal property as collateral.

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World Bank, IMF Caution On Copper Prices, Ag Subsidies  
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14. In a Joint Staff Advisory Note (JSAN), the World Bank and International Monetary Fund indicated that a sharp fall in copper prices poses a serious threat to the implementation of Zambia's

Fifth National Development Plan (FNDP). The Bretton Woods institutions advised the GRZ to address the existing FNDP financing gap and to implement a more efficient and equitable tax system. The JSAN pointed out that GRZ agricultural sector spending allocates insufficient funds to those programs that contribute to improved agricultural productivity, such as agricultural research, technological and irrigation development, and crop diversification. The report advised the GRZ against its subsidized fertilizer support program that absorbs significant resources but reaches less than ten percent of intended beneficiaries such as the small-scale farmers.

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BOZ To Withdraw Money From Commercial Banks  
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¶15. Acknowledging the cost of holding GRZ funds in non-interest bearing commercial accounts, Finance Minister Ng'andu Magande has indicated his intention to withdraw GRZ funds from private banks. (Note: These banks earn interest on GRZ deposits by using the funds to purchase GRZ bonds. End note.) Secretary to the Treasury Evans Chibiliti said that about K700 billion (approximately USD 175 million, or six percent of the national budget) of GRZ money is "lying idle in commercial banks." Economics Association of Zambia Treasurer Noel Nkoma criticized the decision, warning of interest rate increases, credit deficits, and reduced liquidity in the banking sector. BOZ Governor Fundanga, however, maintains that the move will lead to lower interest rates and increased lending in the private sector, as commercial banks look for other sources of income. Comment: Post welcomes the decision, which improves public sector financial management, and supports GRZ plans to establish a national treasury. End Comment.

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LUSAKA 00001054 002 OF 003

Zambian Airways Records Growth  
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¶16. On August 9, Zambian Airways Chief Financial Officer Victor Nyasulu announced that in 2006 the airline achieved income growth of USD 11.5 million, compared to USD 5.3 million in 2005. During the same period, Zambian Airways recorded an increase in the number of passengers carried, from 41,195 in 2005 to 55,126 in 2006. The airline, which was established in 1998 following the privatization of Roan Air, estimates that it will carry 160,000 passengers in ¶2007.

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Mining Companies Find High-Grade Uranium Deposits  
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¶17. Equinox Minerals has discovered high-grade uranium with a 0.093 per cent grading at its Lumwana project in northwestern Zambia. However, Minister of Mines and Mineral Resources Kalombo Mwansa warned investors against mining uranium until the GRZ introduces uranium mining provisions into the 1995 Mines Act. He emphasized that the Act does not allow mining of uranium and the GRZ is closely monitoring recent discoveries in the Kariba area by OmegaCorp and in North-Western Province by Equinox. The Lumwana Uranium Mineral Resources have been estimated at 9.5 million tons. Equinox has contracted the Australian-owned mining company Ausenco to manage and implement a Uranium Feasibility Study (UFS), to follow up on a Bankable Feasibility Study that was completed in 2003, which included work on the extraction of the Uranium mineralization to produce uranium oxide (yellowcake).

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Barclays Confident In Economy, Makes Plans To Expand  
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¶18. Barclays Bank Zambia announced on August 7 that it will open 50 more branches across the country. To accomplish this, Barclays has recruited 410 staff in the last six months, consisting of 360 direct sales agents and 50 managerial staff. According to Managing Director Danie Nel, Barclays has committed GBP 8 million towards the

expansion program, which he says reflects the bank's increased confidence in the Zambian economy, as well as growth in key sectors such as agriculture, mining, and tourism.

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#### World Bank Supports Credit Facility

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¶9. World Bank has provided the GRZ with a USD 12 million concessionary loan, to support an investment credit facility that will offer medium and long-term loans to agribusinesses, commercial farmers, and smallholder businesses. The BOZ, which will administer the funds, welcomed the assistance, noting the difficulty Zambian farmers traditionally have faced accessing capital to expand or improve their operations. On August 6, responding to this "credit crunch," BOZ Governor Fundanga urged commercial banks to reduce lending rates further in order to encourage economic growth. "We have used every forum to request commercial banks to reduce lending rates to be in line with falling inflation rates." He added that although rates are declining and the trend is in the right direction, "we consider the lending rates to be still too high and we urge banks to reduce their lending rates to stimulate growth."

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#### WEF Rates Zambia's IT and Tourism Sectors

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¶10. Out of 122 countries that the World Economic Forum evaluated, Zambia ranked 112th on the Global Information Technology Report (GITR), scoring below neighboring Botswana, Namibia, Tanzania, and Malawi. This marks a significant decline for Zambia, which ranked 81st in the 2003-2004 report (in 2005-2006 Zambia was not included in the study). Zambia's recently-launched Information and Communication Technology (ICT) Policy, which aspires to increase ICT literacy, reduce the cost of ICT equipment, and expand ICT services and job opportunities. The WEF also ranked Zambia 94th out of 124 countries in its Travel and Tourism Competitiveness Report (TTCR). Although the GRZ is actively seeking to market Zambia as a tourist destination, the TTCR forecasted an annual growth rate over the next ten years of only two percent. Zambia performed well in numerous categories (human resources, national tourism perception, and natural resources), including ranking first in its hiring and firing practices. However, inadequate ground transportation and tourism infrastructure, as well as numerous other health and environmental issues, brought down Zambia's overall score. The report valued Zambia's travel and tourism industry at USD 103 million (1.3 percent of the Gross Domestic Product). The industry provides approximately 16,000 jobs (1.1 percent of the total Zambian workforce).

LUSAKA 00001054 003 OF 003

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#### New Structures To Facilitate Zambia-DRC Trade

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¶11. The Smallholder Enterprise and Marketing Program Agribusiness Development Component (SHEMP-ADC) has constructed two warehouses at Kasumbalesa, on Zambia's border with the Democratic Republic of Congo (DRC). SHEMP-ADC Agribusiness Team Leader Gerrit Struyf said the two warehouses are likely to increase trade between the two countries in view of the growing market for agricultural products in the DRC. One of the containers is dedicated for livestock (primarily goats), and the other for agricultural commodities such as cassava, beans, groundnuts, potatoes, and onions. SHEMP, through Celtel Zambia, has also begun a pilot project on the Cross-Border Market Information System, which will take the same form as the Zambia National Farmers Union cellphone-based commodity marketing information system. Earlier in the month, the Zambia Development Agency (ZDA) and the European Union Export Development Program coordinated a trade mission to Lubumbashi, in southern DRC, of 20 local manufacturing companies. Early reports of its impact are positive. According to export data collected from the Central Statistical Office, Zambian exports to DRC in June 2007 accounted for 4.8 percent of Zambia's total exports.

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## Zimbabwe Seeks Trade Opportunities In Zambia

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¶12. Zimtrade, the export promotion wing of the Government of Zimbabwe, announced its intention to set up a retail shop of exclusively Zimbabwean products, particularly processed foods, in Zambia. Chief Executive Officer Hebert Chakanyuka said the move was part of the Government of Zimbabwe's National Export Strategy. Chakanyuka also disclosed that Zimbabwean companies that participated in the recent Lusaka Agricultural and Commercial Show managed to generate business agreements worth USD 300,000, with another USD two million still under negotiation.

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## Pande Invites Chinese Investment

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¶13. In an August meeting with a small Chinese business delegation, Foreign Affairs Minister Kabinga Pande urged the business representatives to invest in mineral smelting in North-Western Province. He also told them that there were great investment opportunities in infrastructure development, tourism, game ranching, and transport. "Zambia is in a hurry to develop and needs all well-meaning friends like China for the country to move forward," he said. He praised China for its development agenda towards African countries and the fulfillment of its pledges to assist Zambia in various social-economic fields.

MARTINEZ